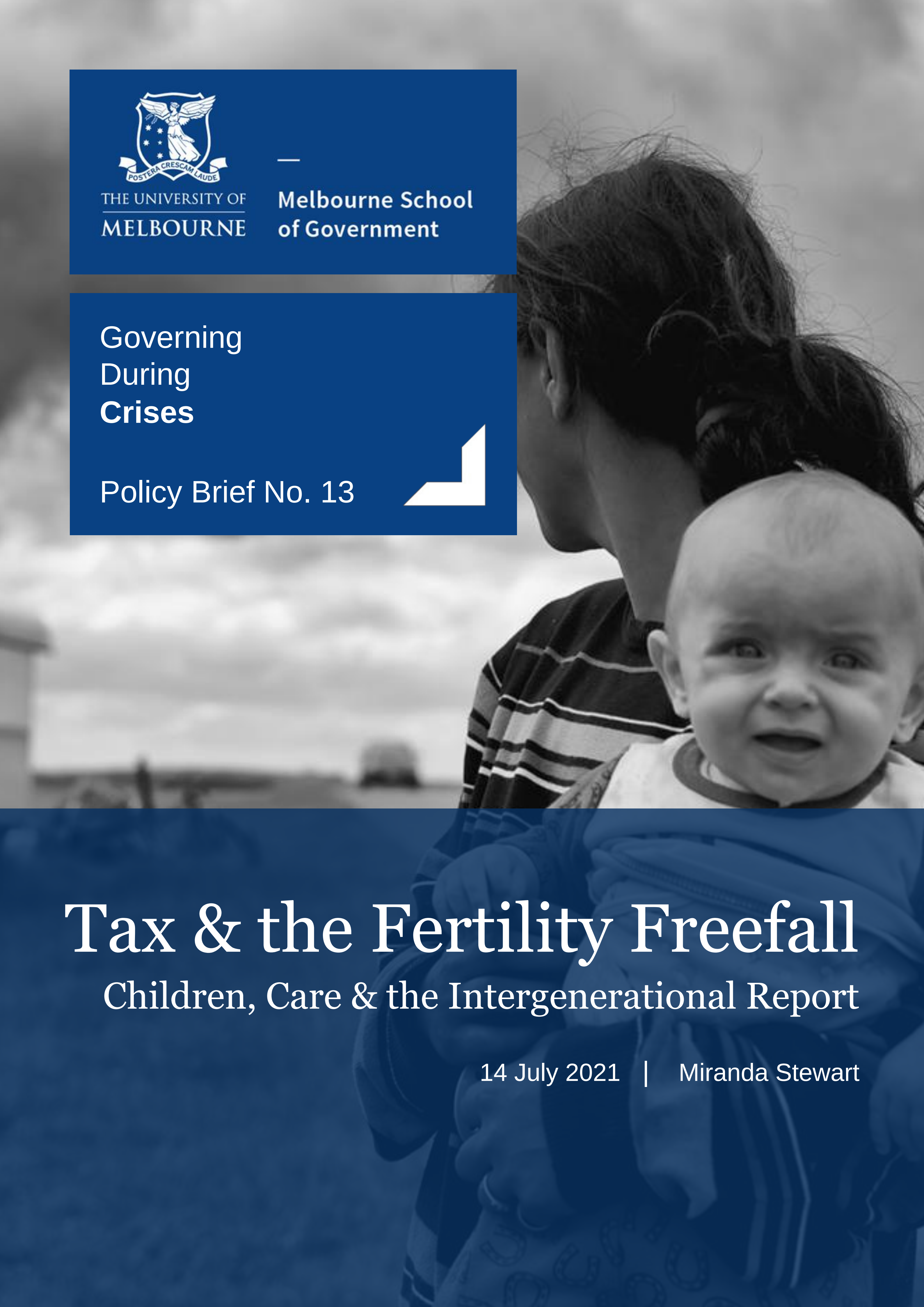

THE UNIVERSITY OF MELBOURNE

Melbourne School of Government

Governing During **Crises**

Policy Brief No. 13

Tax & the Fertility Freefall

Children, Care & the Intergenerational Report

14 July 2021 | Miranda Stewart

Summary

Key Points

This Policy Brief makes the following key points:

(a) The 2021 Intergenerational Report (IGR) looks forward 40 years to project future trends in Australian economic and fiscal sustainability. It is released every five years as required by the Charter of Budget Honesty. Its long-range vision contrasts with our annual government budget framework and the medium-term expenditure framework that the budget applies.

(b) The 2021 IGR highlights the future effects of the pandemic on the economy and budget, including negative effects from lower migration, which reduces population in the long term and hence reduces the size of the economy. The IGR also addresses other crises, including the challenges of population ageing and declining fertility, which are the focus of this Brief.

(c) The 2021 IGR assumes a dramatically lower fertility rate, below 1.6, than the 2015 IGR, which assumed a fertility rate of 1.9. The lower rate reflects current reality and is in line with comparable countries. It is significantly below the population "replacement" rate of 2.1 and governments are starting to wake up to the implications of declining fertility.

(d) A key consequence is ageing of the population. The IGR presents the old-age dependency ratio, which is declining as the ratio of working age people to those aged 65 or over falls. But the IGR fails to recognise the cost and value of care for children. The IGF also fails to recognise both private and public costs of care, in money and time, for all dependents.

(e) By seeing only half the picture, the IGR ignores obvious strategies to support fiscal and economic wellbeing in a fair way. Current tax and transfer policy settings fail to share the cost of childcare, or to alleviate the economic burden on families, especially women.

Recommendations

This Policy Brief makes the following recommendations:

(a) **Universal Childcare and Parental Leave:** Australia should invest in financial support for parental care time for all children with options suited to both parents, for at least the first 12 months after birth, and for universal public childcare for all children.

(b) **Universal Family Allowances:** Australia should support all families especially those who need it most to care for their children, without living in poverty.

(c) **A Fuller Data Map:** The IGR should utilise time-use data to present a full picture of the economic, social and fiscal resources of time and care in Australia over the coming 40 years.

(d) **Improved Framework:** The IGR should present the total dependency ratio to show the care needs of young, old, and the sick and disabled, on a range of reliable fertility assumptions.

(e) **Focus on Future Population Risks:** The IGR should highlight the kinds of policies that can address future population risks, rather than solely referring to fiscal limits such as the "tax cap" and therefore over-emphasising supposed needs to cut public expenditure.

Tax & the Fertility Freefall

Children, Care & the Intergenerational Report

1. Introduction

The 2021 Intergenerational Report (IGR) looks forward 40 years to project future trends in Australian economic and fiscal sustainability. The IGR is released every five years as required by the Charter of Budget Honesty. Its long-range vision contrasts with our annual government budget framework and the medium-term expenditure framework that the budget usually applies. As the IGR itself says, the future will certainly not look like its projections – forecasting is subject to massive uncertainty, and based on assumptions that may not come true. But, we can be certain of some things. In particular, by ignoring why women are having fewer babies and failing to count the cost of care, the IGR only tells us half the story about future economic and fiscal risks.

2. Crisis, What Crisis?

This year's IGR comes at a time of immediate crisis, during the COVID-19 pandemic. The 2021 IGR highlights the effect of the pandemic on the economy and budget into the future, including negative effects from lower migration which reduces population in the long term and hence reduces the size of the economy, and lower tax collections and increased government payments in the short term. As a result, the IGR projects a fiscal deficit forty years into the future.

The Government's projected fiscal deficit is largely the result of its "tax cap" of 23.9 per cent of GDP in federal taxes, not only the slowdown in population growth. Governments can choose to raise taxes with democratic consent, and Australia's tax level is low relative to other countries in the OECD; Australia's "tax cap" is politically driven and has no genuine economic or policy rationale.

The IGR also addresses longer term crises including the challenges of population ageing and declining fertility, which are the focus of this Brief.

3. A Partial View of Our Fiscal & Economic Resources

Despite its long-range and supposedly holistic vision, the IGR only gives us a partial picture of resources available – and being used by us - as a society. Indeed, the IGR is like the proverbial "looking for the car key under the street light".

In measuring economic growth, the IGR is blind to goods and services delivered within families, or households. It only measures what is monetized

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through the market. In accounting for fiscal distribution and costs, the IGR only measures public revenues, investments, and spending, but ignores unpaid investments of resources, particular of time, by households and volunteers.

The IGR recognises some of its own limitations. It observes that GDP is an inadequate measure of economic welfare, counting as it does only the production and consumption of monetized goods and services by enterprises or government. It also acknowledges the importance of environmental sustainability – though others observe that the IGR fails to include the cost of climate change and environmental disasters in its forecasts.

The IGR observes the "traces" that public statistics capture about taxing and spending to ascertain our "socialised" or public resource allocation.[1] It does not see the much less visible family, household or "non-socialised" investments by families or households. It is missing a crucial element: the economic and fiscal value of non-market care of children. Children are priceless, of course, to their parents – but children are also socially valuable. This should be obvious, but it is surprisingly controversial. People both with and without children depend on the future contributions made by today's children in taxes and time, to support us in old age.

Most of the non-market investments of families reflect time expended on care of children, the elderly, and others who need it. These investments by families leave no "traces" in public statistics, because decisionmakers on statistics choose not to look there. One exception is the time-use survey of the Australian Bureau of Statistics. Our data is way out of date: Australia last reported on time-use in 2006. The good news is that the ABS has re-started the time-use survey.

[1] R I Gal, P Vanhuysse and L Vargha, 'Pro-Elderly Welfare States within Child-Oriented Societies' (2018) 25(6) Journal of European Public Policy 944-958.

Why is this important? Two reasons: shared wellbeing; and distributive justice. To enhance overall economic welfare, as we should, we must consider resources both public and private, both money and time. Likewise for the fundamental goal of justice for all Australians, we must ensure minimum standards and more equal distribution of resources and wellbeing, across all stages of life. The IGR's failure to take account of family and household resources means it ignores growing inequality between households, and does not address inequality between generations and the fiscal risks that we face in future.

4. Intergenerational Dependence & Fertility

A key focus of the IGR is on the impact of demographic changes. This is affected by assumptions about fertility and migration. The 2021 IGR makes a dramatically lower assumption of the long-run fertility rate, below 1.6, than the 2015 IGR which assumed a fertility rate of 1.9.

The fertility rate of 1.6 is significantly below the population "replacement" rate of 2.1, but it is realistic and in line with global trends. Fertility is declining around the world. In many comparable countries to us, such as Canada or Germany, the fertility rate is already lower. If Australia were to follow global trends, we would see fertility declining even more rapidly – in Italy, fertility is 1.3; in Korea, 0.9. Governments are starting to wake up to the implications of this for our wellbeing. Over the period of the IGR, the United Nations is projecting a decline in the rate of population growth, leading to a decline in global population, which some suggest will commence in 2064.

Lower fertility and increased longevity produces ageing of the population. For purposes of identifying the fiscal and economic implications, the IGR presents Australia's *old-age dependency ratio*. Confusingly, the Treasury adopts a definition that is the opposite of that adopted internationally, (though measuring the same thing). The IGR counts the old-age dependency ratio as the proportion of those of working age (15 to 64) to those who are aged 65 or over. On this basis, the dependency ratio is projected to decline from the current level of about 4, to about 2.7 people aged 15-64, relative to people aged 65 or more, by 2060. This is shown in **Figure 1** on p.8.

Unfortunately, the old-age dependency ratio tells us only half the story. The more important ratio to understand is the *total dependency ratio.* This is the ratio of the working age population to those who are young, or old, and who are reliant on working-age people for care. It tells a very different story. **Figure 2** on p.8 shows that since the 1920s, the ratio of working aged to those over 65 has been declining (this is mainly a consequence of increased longevity), but the youth dependency ratio (working age to under 15) has been rising, as the number of children we have declines. The total dependency ratio has been, consequently, almost flat through the century.

It is only very recently that the total dependency ratio has started to decline slightly: here, our declining fertility is crucial. We are a nation having fewer children, but living longer and needing care in old age. The implications of having fewer children are only now becoming apparent.

The IGR discusses in detail that net inward migration slows population ageing, helps economic growth and assists the fiscal sustainability of Australia. But migration does not substitute for fertility or halt population ageing; it only delays it.

5. Valuing Care Work and Time Helps us See Clearly and Make Good Policy

After the immense loss of life during the First World War and the Spanish flu pandemic that followed it, Australia's national accountants understood the value of the nation's children, the national statistician estimating in 1923 that the value of the stock of human capital in Australia was about three times the value of the nation's 'material capital, both private and public' at the time. Most importantly, such calculations included the unpaid work of mothers in raising children to age 15. We use the term "unpaid" work because the carer does not receive a salary, so the value of care is not monetised and is therefore missing from the statistics.

The IGR counts the monetised contribution from population growth: wages, superannuation, and taxes which fund aged care and pensions. The cost of investing in, and raising, children, is mostly borne by parents who invest extraordinary amounts of time and resources over many years. This is not just to age 15, which is "working age" according to the ABS dependency ratio statistics – but for many young people, well into their twenties.

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But families are unequal in the resources they have available to invest in children. Higher income families invest more money in their children: in private school fees, payment for tertiary education, and transfers of deposits to buy houses. The most valuable investment of families in their children is not such financial contributions, important though they are – it is the investment of *time*. Higher income families also invest more in time – either in a stay-at-home parent, the reliance on grandparents (where grandparents themselves are comfortable financially) or through the purchase of expensive private care.

How can we measure the investment of time, private monetary and public resources in children? An example is provided in a recent European study of the "transfers" of public and private, monetary and time resources between generations. **Figure 3** on p.9, shows the surprising result that more resources are invested in children, than in the elderly, when we take account of time and other private transfers. This analysis extends "national transfer accounts" analysis which usually ignores non-market care and time. The extension to non-monetary care has been proposed but has not yet been done for Australia.

The IGR is to be commended for identifying the economic, social and fiscal value of increased workforce "participation" by women – who would increase their own economic independence and security, and pay more taxes, if current policy barriers to market work were removed. Clearly, increased women's market work participation would be positive if they had no other work to do. To its credit the IGR also notices that the main reason why women are employed part time is care responsibilities, shown in **Figure 4** on p.9. But the IGR fails to note that in families with young children, almost no men work part time, while most women do; nor does it analyse the lifecourse implications of this difference for women.

Most investments of time in children are by women. There is ample evidence of overworked parents, mostly women, working a double shift.

6. We Must Share the Cost of Care More Equally

Most investments of time in children are by women. There is ample evidence of overworked parents, mostly women, working a double shift. Many women in families – and some men – are also caring for the elderly or disabled. Women bear the economic cost of care, but they are not remunerated for it. To fit in care work, women take jobs which mean that they do not fully benefit from the economic independence, reward, or security that would come with having a fulltime well paid job over their lifecourse. Relying on private superannuation as retirement income ensures that the gender gap in monetary returns from investing in children is entrenched, and the returns from their investments in children are mostly socialized.

The last ABS time-use survey in 2006 showed that women spent much more time on care than men. The ABS is rolling out this survey again in 2021-2022 and it will tell us how much time we are spending on care, albeit in pandemic conditions.

Current tax and transfer policy settings fail to share the cost of care, or to alleviate the economic burden on women. Indeed, they prevent low and middle income families from getting ahead, by pushing most of the care responsibility for children onto them. It is hardly surprising that fertility rates are declining. The opportunity cost for families – but especially for women – of having children, in both money and time, is enormous, especially during infancy. In financial terms alone, raising a family of two children costs around a million dollars, even without counting the unpaid labour.

In contrast to its detailed discussion of migration, the IGR still fails to grasp the central issue: The urgent need to share the cost of investment and care of our most valuable assets - our children – more fairly across society.

7. Conclusion

Despite all the uncertainties, a long-range economic and fiscal vision is important for good government. However, the 2021 IGR, and previous reports, remains a partial vision of the future. If it is truly to be a report of "Australia in 40 years" as it claims to be, the IGR must do a proper and serious accounting of the resources – in time and money – available for us in the Australian economy, society and budget.

It has been said that the main political function of the IGR has been as a vehicle for bad news that supports government cost cutting and fails to "spark action". The IGR is not the place for detailed policy development, but it must be more explicit about the tax and transfer policies and trade-offs we should consider to support our future economic and fiscal wellbeing.

We can easily improve policies to reduce the burden on families, and especially women, and share the cost of investment in our children. One way to do it is obvious – and already widely discussed – universal free childcare. Paid parental leave is also crucial. We should invest in financial support for parental care time ('leave' is a misnomer) for all children with options suited to both parents, for at least the first 12 months after birth and probably longer. And we should reinstate universal family allowances to support families, especially those who need it most and don't have good work options, to care for their children without living in poverty. Universal child endowment was adopted until the 1980s in Australia.

We should also be clear that these policies are not expensive – they are good value. The view that public investment in child care and parental leave would cost too much, or be fiscally unsustainable, is not only misguided, it is akin to blind drunk – it only looks under the streetlight because that's all they can see. The IGR can contribute by counting not only public fiscal resources, but also private time and monetary contributions. This would make visible the barriers that limit the contributions of skills and labour, and the unequal distribution of market rewards, for Australian women, and parents more generally.

If the IGR – and we as a society – properly examined public and private resources and investment, we could take some simple steps to save on cost, improve justice and reduce inequality of resources for all children; between women and men; between rich and poor families; and across generations.

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Picturing the Evidence

The four figures on this page and overleaf present the old-age dependency ratio for Australia produced by the Intergenerational Report 2021 (Figure 1), the total dependency ratio for Australia over the last century (Figure 2), a snapshot of public and private intergenerational transfers of money and time in European countries (Figure 3) and the reasons why Australian women and men work part-time in Australia, from the Intergenerational Report 2021 (Figure 4).

Figure 1 Old-Age Dependency Ratio, Australia

Source: 2021 Intergenerational Report, Treasury of the Commonwealth, Chart 2.17

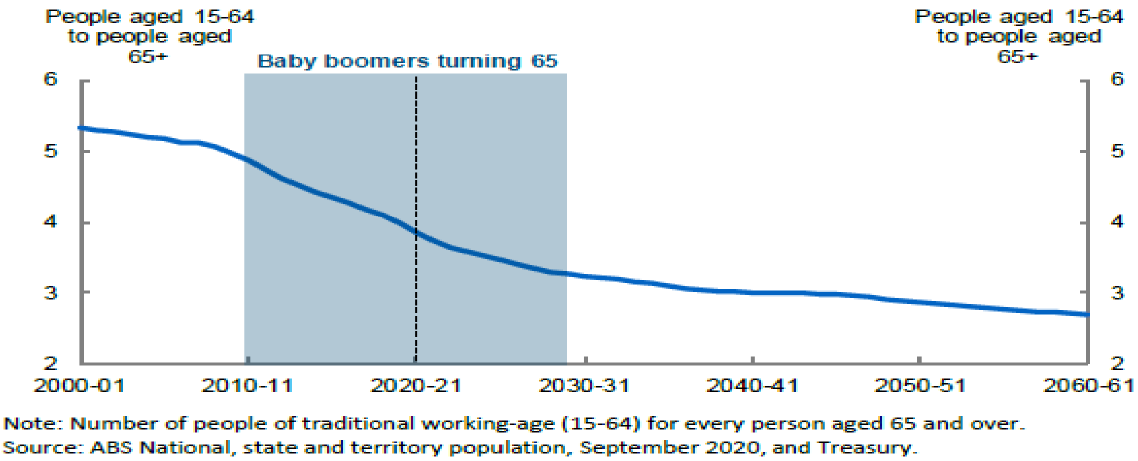


Figure 2 Youth, Aged and Total Dependency Ratios (Australia), 1921-2018

Source: Author's chart (prepared with Carina Stone); ABS data.

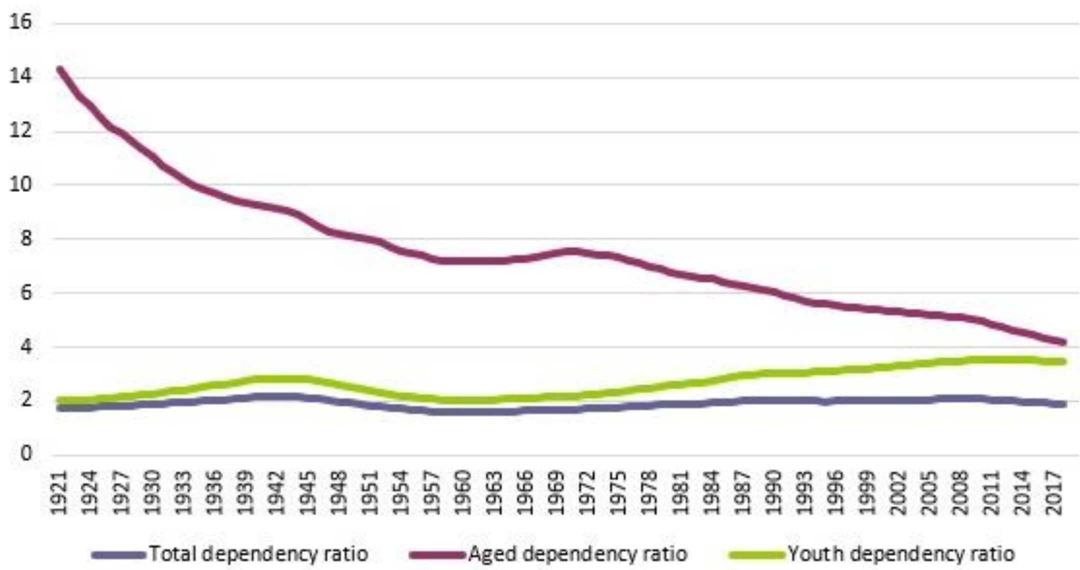


Figure 3 Intergenerational Time, Public and Private Transfers

Source: Gal (2018)

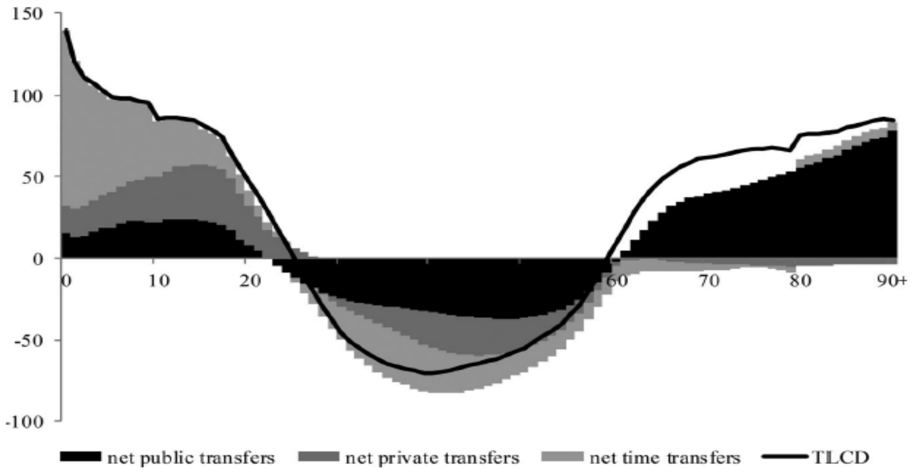
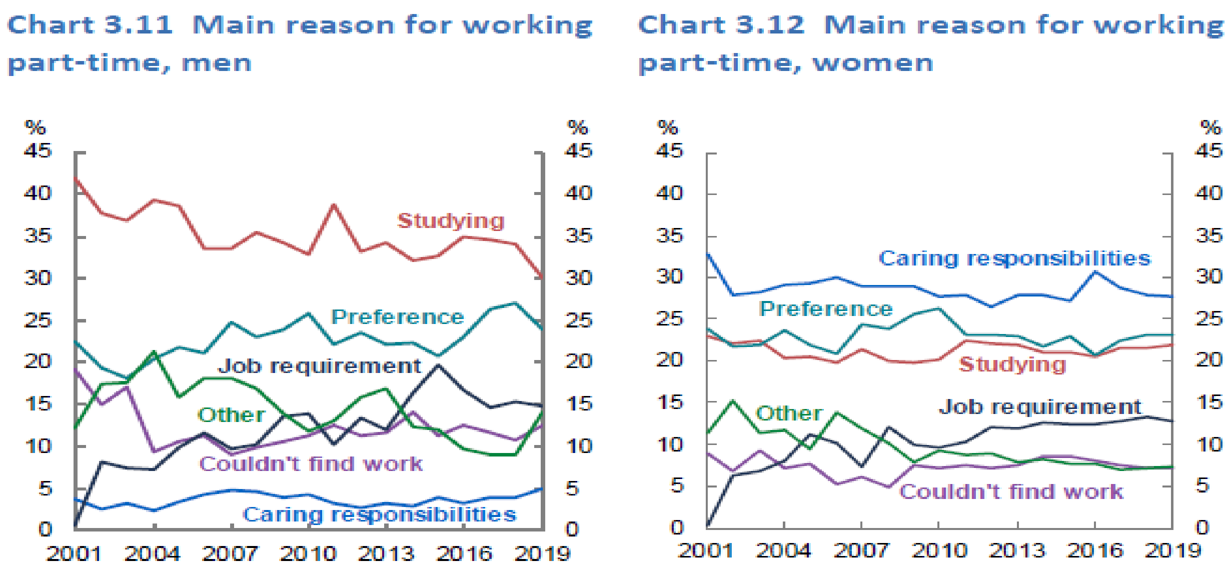


Figure 2. Per-capita public, private and time transfers and their contribution to filling the gaps of total lifecycle deficit by age in Europe. Source: Authors' calculation based on NTA data (www.ntaccounts.org) and Vargha *et al.* (2016).

Notes: Values as in Figure 1.

Figure 4 Gender Breakdown: Main Reason for Working Part-Time

Source: 2021 Intergenerational Report, Treasury of the Commonwealth, Charts 3.11 and 3.12



Source: Household, Income and Labour Dynamics in Australia Survey, Release 19.0.

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Note: A variety of references in this text are provided as hyperlinks within the text. This references section lists selected texts in chronological order.

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